

The Business Population by Legal Form of Organization

THIS article presents the first comprehensive estimates of the legal form of organization of American business. The fourth of a series of articles¹ describing the characteristics of the business population and its turnover, the present study should provide a useful addition to the growing body of information regarding American enterprise.

The present importance of corporations in the functioning of the economy and their major role in the vast growth of American business in the past century is well established. Corporations now contribute nearly three-fourths of the total national income originating within the private sector of the economy, excluding agriculture and professional services for comparability with the business population series. In terms of the number of businesses, however, this situation is reversed; two out of every three are individually owned, almost one-fifth are partnerships, and only one-tenth of all firms are corporations. In regard to the number of firms in operation, the business population may be considered as dominated by small proprietorships since more than half of all firms have fewer than four employees and are individually owned.

Chart 1 shows the striking difference between the major share of corporations in the total value of business activity or in national income and the comparatively moderate proportion which they constitute of the number of firms in operation. Even in retail trade, where unincorporated businesses outnumber corporations more than 15 to 1, the corporate share of national income is more than 40 percent.

The larger the size of the company, the less important are proprietorships and the more important are corporations. Among firms with 20 or more employees, the largest employee size class considered in the present study, less than 1 in 5 firms are proprietorships. In this size class, more than half of the firms are incorporated, and partnerships are somewhat more numerous than proprietorships. It should be noted that, although more than half of all firms with 20 or more employees are corporations, three-fourths of all corporations are firms of smaller size.

Two out of three new firms individually owned

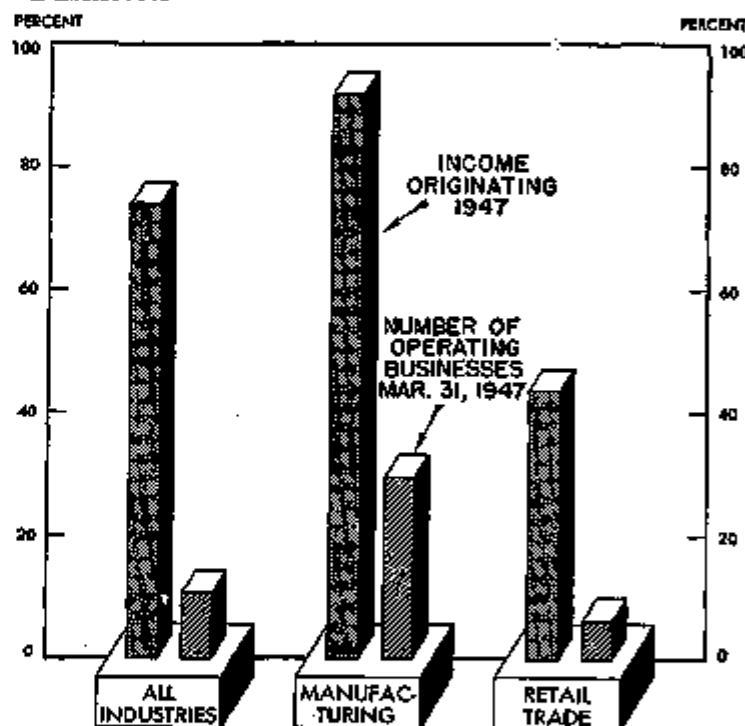
Nearly two out of every three of the 2.5 million new firms formed during the period 1945-50 were individually owned, one-fourth partnerships, and one-fifteenth were corporations. The distribution of new businesses by type of organization is seen to bear a close resemblance to the distribution of existing firms. Furthermore, although factors, such as changes in the industrial patterns of the business population itself and modification of tax laws applicable to businesses of different types, could be expected to affect the distribution of new businesses by type of organization, there has been little change during this period.

¹ See "The Size Distribution of the Postwar Business Population," *SURVEY OF CURRENT BUSINESS*, May 1950, "State Estimates of the Business Population," *SURVEY*, December 1950, and "Revised Estimates of the Business Population 1939-48," *SURVEY*, June 1949.

NOTE.—MISS CHURCHILL IS A MEMBER OF THE BUSINESS STRUCTURE DIVISION, OFFICE OF BUSINESS ECONOMICS.

The proportion of proprietorships among new firms has remained fairly constant over these years though it was comparatively low in 1946. Since 1945 there has been a gradual increase of a few percentage points in the proportion of new firms organized as corporations which has been offset by a decrease in the proportion of new partnerships.

Chart 1.—Relative Importance of Corporations in Terms of Income Originating and Number of Operating Businesses



U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS

SI-137

Source of data: U. S. Department of Commerce, Office of Business Economics.

The number of new businesses within each of the types of organization was highest in 1946, the year following the end of the war during which firm formation reached the record high of 620,000 new businesses. Although new firms entered the business population in about the same numbers during 1950 and 1945, the number of new corporations is currently 45 percent higher.

Types of Organization Among Existing Firms

Table 1 presents the number of firms in operation March 31, 1947 by type of organization and by industry, and table 2 shows percent distributions within types of organization and industry divisions. More than two-thirds of all the firms in operation are proprietorships, almost one-fifth are partnerships, 10 percent are corporations, and less than 2

percent are controlled by other types of organizations. Included in the "other types" are estates, trusts, receiverships, and cooperatives organized under special state laws rather than as corporations.

In terms of employment and volume of business, corporations are the most important form of organization in most major industry divisions of the business population. Since the corporate form as it exists today rests upon a body of legislation largely formulated during the last century, the growth of corporations in number and importance occurred during that time. The corporate form of organization is well suited to large concerns since it facilitates the concentration of large sums of capital by reducing the individual investor's risk to the amount of his investment. Prior to the general availability to private business of the corporate form of organization there was probably a period during which the

Table 1.—Number of Firms in Operation by Type of Organization and Industry, March 31, 1947

| Industry | All types | Type of organization | | | |
|---|-----------|----------------------|-------------|-----------|-------|
| | | Individual | Partnership | Corporate | Other |
| All industries..... | 3,236.7 | 2,867.6 | 661.2 | 411.7 | 69.3 |
| Mining and quarrying..... | 35.4 | 17.6 | 7.1 | 7.8 | .9 |
| Contract construction..... | 289.6 | 219.4 | 63.4 | 17.3 | .4 |
| Manufacturing..... | 336.6 | 149.7 | 77.9 | 97.2 | 1.8 |
| Food and kindred products..... | 37.8 | 14.6 | 9.3 | 13.2 | |
| Textiles and textile products..... | 43.8 | 13.6 | 12.6 | 16.8 | |
| Leather and leather products..... | 4.9 | 2.4 | 1.7 | 2.7 | |
| Lumber and wood products..... | 84.1 | 53.7 | 21.8 | 8.0 | |
| Paper and allied products..... | 4.3 | 1.1 | .6 | 2.4 | |
| Printing and publishing..... | 44.3 | 23.7 | 8.4 | 11.5 | |
| Chemicals and allied products ¹ | 19.2 | 3.7 | 1.6 | 7.0 | |
| Rubber products..... | 1.4 | .5 | .8 | .8 | |
| Stone, clay and glass products..... | 12.2 | 5.3 | 4.0 | 3.7 | |
| Metals and metal products..... | 67.2 | 16.3 | 12.8 | 24.8 | |
| Other manufacturing ² | 28.4 | 13.0 | 4.7 | 6.4 | |
| Transportation, communication and other public utilities..... | 178.9 | 187.5 | 13.5 | 22.1 | 4.9 |
| Wholesale trade..... | 194.4 | 86.7 | 49.6 | 54.3 | 2.8 |
| Retail trade..... | 1,654.4 | 1,301.4 | 233.3 | 100.4 | 15.6 |
| General merchandise..... | 76.6 | 52.0 | 15.6 | 7.2 | |
| Food and liquor..... | 484.2 | 389.3 | 83.9 | 10.4 | |
| Automotive..... | 71.9 | 34.3 | 19.0 | 16.1 | |
| Apparel and accessories..... | 92.4 | 53.9 | 21.7 | 14.5 | |
| Eating and drinking places..... | 317.4 | 223.4 | 78.3 | 13.8 | |
| Filling stations..... | 226.5 | 192.5 | 41.8 | 1.9 | |
| Other retail trade..... | 387.6 | 266.4 | 70.0 | 35.7 | |
| Finance, insurance and real estate..... | 343.7 | 186.6 | 49.9 | 76.4 | 31.7 |
| Service industries..... | 321.5 | 685.7 | 111.4 | 36.2 | 5.2 |
| Hotels and other lodging places..... | 76.0 | 61.0 | 10.9 | 4.9 | |
| Personal services..... | 411.0 | 334.3 | 51.8 | 9.5 | |
| Business services..... | 75.8 | 50.3 | 10.2 | 8.2 | |
| Automobile repair..... | 82.2 | 71.3 | 17.2 | 3.2 | |
| Miscellaneous repair..... | 98.0 | 86.0 | 10.2 | 1.8 | |
| Motion pictures..... | 12.7 | 5.2 | 2.0 | 4.3 | |
| Other amusements..... | 47.0 | 33.2 | 8.6 | 4.6 | |

¹ Includes products of petroleum and coal.

² Includes tobacco and miscellaneous manufactures.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: U. S. Department of Commerce, Office of Business Economics.

small and medium-size firms though probably not for the smaller number of giant concerns for which capital could not be raised in any other manner.

A comparison of the number of corporate tax returns with estimates of the total business population 1909-47² indicates that the proportion of corporations has increased only a few percentage points over this entire period. These data also indicate that corporations are relatively most numerous during periods of depression and proportionately lowest under favorable business conditions, reflecting the greater cyclical stability of the larger firms.

The present study presents the number of firms in operation by type of organization as of a single date, March 31, 1947. However, it is probable that the proportions of individually owned businesses, partnerships, corporations and other types of organization are not much different at present. The business population has remained relatively stable in regard to factors such as size, industry, and geographical region over this period, and there is no reason to expect greater variation in the distribution by type of business organization.

Data on firms with at least one employee, prepared on a sample basis by the Bureau of Old-Age and Survivors In-

Table 2.—Percent Distribution of Firms in Operation March 31, 1947, Within Industry Divisions and Types of Organization

| Industry | Within industry divisions | | | | | Within types of organization | | | | |
|--|---------------------------|------------|-------------|-----------|-------|------------------------------|------------|-------------|-----------|-------|
| | All types | Individual | Partnership | Corporate | Other | All types | Individual | Partnership | Corporate | Other |
| All industries..... | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 69.5 | 13.0 | 10.7 | 1.8 | |
| Mining and quarrying..... | .9 | .7 | 1.0 | 1.9 | 1.2 | 100.0 | 52.8 | 21.4 | 23.8 | 2.3 |
| Contract construction..... | 7.2 | 8.2 | 8.3 | 4.2 | .6 | 100.0 | 78.2 | 15.5 | 6.2 | .1 |
| Manufacturing..... | 3.6 | 3.6 | 11.3 | 29.8 | 8.4 | 100.0 | 45.3 | 23.6 | 26.4 | 1.8 |
| Transportation, communication, and other public utilities..... | 4.7 | 5.1 | 1.9 | 5.4 | 8.8 | 100.0 | 76.8 | 7.3 | 12.3 | 3.3 |
| Wholesale trade..... | 5.1 | 3.2 | 7.2 | 13.2 | 5.3 | 100.0 | 44.6 | 25.3 | 27.0 | 2.0 |
| Retail trade..... | 49.1 | 45.0 | 49.1 | 24.4 | 22.5 | 100.0 | 73.8 | 30.3 | 4.1 | .9 |
| Finance, insurance, and real estate..... | 8.9 | 7.0 | 7.1 | 18.6 | 46.8 | 100.0 | 54.3 | 14.3 | 22.2 | 8.2 |
| Service industries..... | 21.4 | 28.1 | 16.1 | 8.8 | 7.5 | 100.0 | 81.4 | 13.8 | 4.4 | .0 |

Source: U. S. Department of Commerce, Office of Business Economics.

surance, show virtually the same distributions by type of organization in the first quarters of 1947 and 1948. The relatively constant percentages by type of organization among business births also suggests stability among existing firms in this respect.

Unincorporated firms comprise a substantial majority of the total number of firms in operation within nearly every industry for which separate data are available. The two exceptions are both in the manufacturing division where more than half of the paper and allied products firms and three-fifths of the firms in chemicals and allied products are incorporated. It should be noted that even in industries such as these where a large share of total output is concentrated in relatively few firms, the proportions of unincorporated firms are far from negligible. As would be expected, among the major industry divisions the corporate percentages are highest for manufacturing and lowest for services and retail trade.

The corporate percentage for the transportation, communication and other public utilities division is only slightly higher than average; although virtually all railroads and other public utility firms are incorporated, firms engaged in

² For years prior to 1929, the "Reference Book" data published annually by Dun and Bradstreet, Inc. were linked to the Office of Business Economics series on the total number of firms in operation.

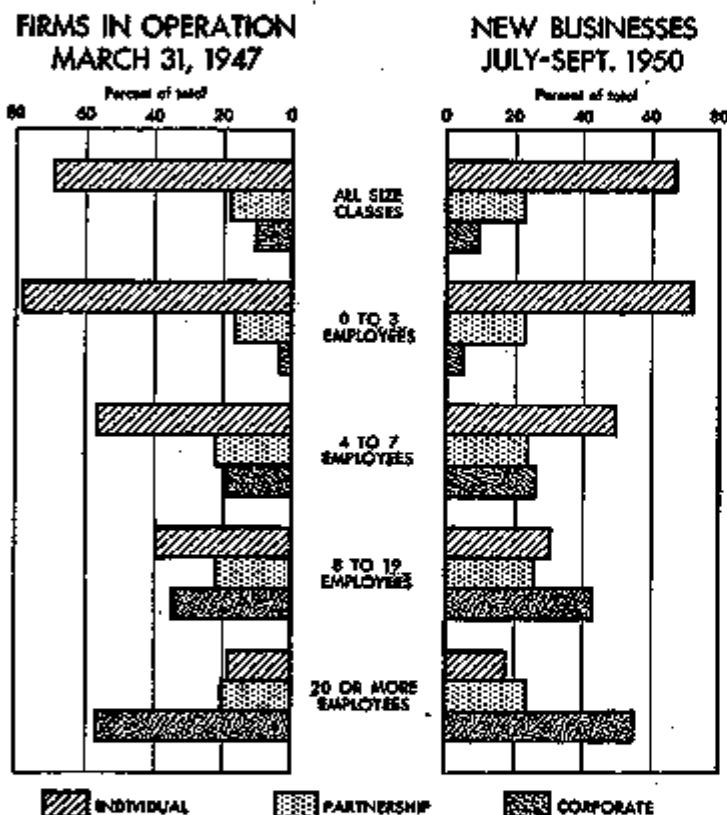
larger firms tended to be partnerships which secured capital by pooling the resources of individuals.

After an extremely rapid growth in the number of corporations in a relatively brief formative period, the rate of increase tapered off and since the early 1900's has been only moderately higher than the rate for the rest of the business population. While during this period the growth of the economy and the development of the capital markets may have served as a stimulus to a more rapid growth in the corporate sector of business, the increasing importance of corporation taxes—particularly since World War I—operated as a very significant deterrent to incorporation, especially for

such activities as trucking and services allied to transportation are more numerous and predominantly unincorporated.

Within the noncorporate sector of the business population, proprietorships comprise the bulk of all firms in operation. Partnerships are outnumbered by proprietorships within each industry for which statistics are separately available. (See table 1.) The ratio of partnerships to proprietorships is highest within the manufacturing division, particularly in the textiles and textile products and the stone, clay, and glass products industries.

Chart 2.—Distribution of Firms in Operation and of New Business, by Type of Organization Within Employee Size Classes¹



U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS

(11-13)

¹ A small percentage of "other" types of organizations are not shown in the chart.

Source of data: U. S. Department of Commerce, Office of Business Economics.

The industry distribution of firms within the different types of organization is shown in table 2. Although from the point of view of number of firms the retail trade division is dominated by unincorporated enterprises, it is of interest that there are more corporations in retail trade than in any other industry division; almost 25 percent of all corporations are primarily engaged in retail trade. The proportion of corporations is less than the general average in three industry divisions: contract construction, retail trade, and the service industries. The trade and service industries claim eight out of every eleven unincorporated firms.

Comparison with Census of Manufactures

The 1947 Census of Manufactures contains information on establishments by legal form of organization. Within each manufacturing industry the proportion of establishments controlled by corporations as shown by the census exceeds the corporate percentage determined from the esti-

mates of business firms presented here. However, there is fairly close agreement between the arrangement of the manufacturing industries from high to low corporate percentages as determined from the two sets of data.

The explanation of the above results lies in the differences in definitions and scope between the two sets of data. The Bureau of the Census counts each manufacturing establishment separately. The Office of Business Economics, on the other hand, counts each firm once even though it may control more than one plant or establishment; furthermore, in

Table 3.—Number of Firms in Operation by Type of Organization, Selected Industry Divisions and Size of Firm, March 31, 1947
(Thousands)

| Industry division and size class | All types | Type of organization | | | |
|----------------------------------|----------------|----------------------|--------------|--------------|-------------|
| | | Individual | Partnership | Corporate | Other |
| All industries..... | 3,639.7 | 2,667.6 | 891.3 | 411.7 | 69.3 |
| 0-3 employees..... | 2,650.3 | 2,336.3 | 375.7 | 109.2 | 39.1 |
| 4-7 employees..... | 490.6 | 277.1 | 110.6 | 91.1 | 11.9 |
| 8-19 employees..... | 301.1 | 119.9 | 96.4 | 108.2 | 17.8 |
| 20 or more employees..... | 191.6 | 33.2 | 38.6 | 106.1 | 9.6 |
| Manufacturing..... | 239.6 | 149.7 | 77.9 | 87.2 | 5.6 |
| 0-3 employees..... | 147.9 | 98.6 | 37.6 | 10.9 | .6 |
| 4-7 employees..... | 51.3 | 30.7 | 15.4 | 14.5 | .7 |
| 8-19 employees..... | 57.3 | 20.9 | 10.8 | 23.9 | 1.7 |
| 20 or more employees..... | 74.1 | 9.2 | 14.2 | 47.3 | 2.6 |
| Retail trade..... | 1,656.6 | 1,201.4 | 339.3 | 100.4 | 15.6 |
| 0-3 employees..... | 1,229.9 | 1,013.0 | 247.7 | 21.3 | 7.4 |
| 4-7 employees..... | 221.4 | 133.2 | 65.0 | 30.3 | 2.9 |
| 8-19 employees..... | 107.2 | 46.3 | 37.0 | 31.6 | 4.0 |
| 20 or more employees..... | 38.2 | 9.8 | 9.6 | 17.3 | 1.4 |
| Service industries..... | 821.5 | 686.7 | 181.4 | 38.2 | 5.2 |
| 0-3 employees..... | 684.5 | 594.3 | 73.0 | 9.5 | 2.7 |
| 4-7 employees..... | 74.8 | 48.4 | 18.5 | 8.8 | 1.1 |
| 8-19 employees..... | 40.1 | 19.3 | 10.7 | 9.1 | 1.1 |
| 20 or more employees..... | 22.1 | 6.6 | 6.3 | 8.9 | .3 |

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: U. S. Department of Commerce, Office of Business Economics.

OBE statistics, a firm engaging in manufacturing would not be included in this division unless manufacturing were the major activity of the firm as a whole. In 1947, manufacturing establishments were not covered by the census unless there was at least one paid employee; no cut-off point based on size of firm is employed in business population statistics. Each of these differences in scope and definition would tend to raise the corporate percentage as determined from census information on establishments over the percent corporate determined from OBE firms.

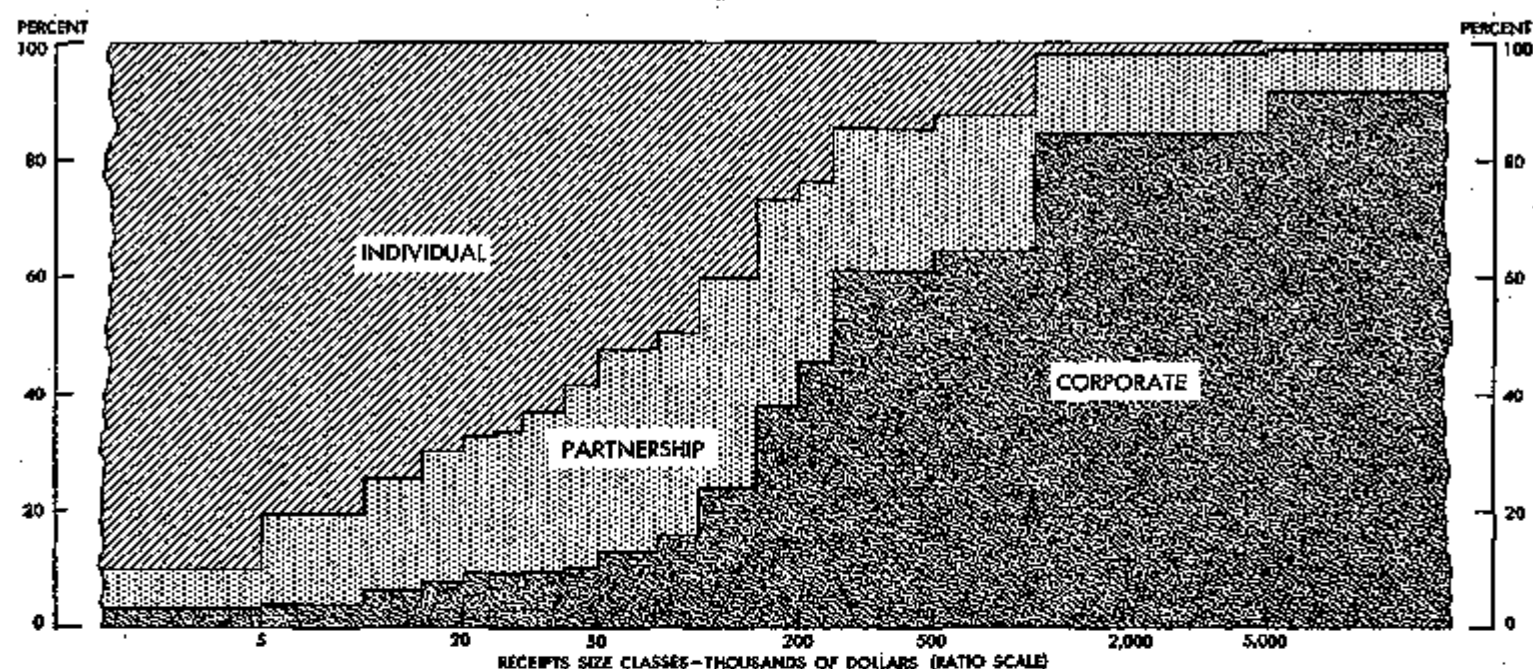
Size and legal form of business organization

The left-hand portion of chart 2 reveals the effect of firm size as measured by number of employees upon distributions of firms by type of organization. Although individually owned businesses comprise nearly four-fifths of all firms with fewer than four employees, the proprietorship percentage falls off rapidly and less than one-fifth of all firms with twenty or more employees are individually owned.

As the size of firm increases, proprietorships and corporations change places, making the picture for firms with 0-3 employees the reverse of that found for firms employing 20 or more. The proportion of partnerships, although somewhat higher in the middle size classes, is relatively constant at about 20 percent. The similarity between the pattern of the smallest size class and that of all size classes combined indicates the extent to which the total number of firms in the business population is dominated by small firms. Even for firms in the class of 4-7 employees, the pattern is considerably modified, and roughly equal proportions of proprietorships and corporations are found within the 8-19 employees size class.

Table 3 shows the number of firms in operation March 31, 1947 by kind of business organization and by size for selected

Chart 3.—Percent Distribution of Firms in Operation March 31, 1947, by Type of Organization Within Total Receipts Size Classes



U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS

51-132

Source of data: U. S. Department of Commerce, Office of Business Economics.

industry divisions as well as for the business population as a whole. Even in the service and retail trade divisions, where only a small proportion of firms are incorporated, corporations comprise between 40 and 45 percent of the firms with 20 or more employees. It should be noted that although the total number of firms in operation decreases sharply as size of firm increases, roughly equal numbers of corporations appear in each of the size classes shown. Although corporations comprise the bulk of large firms, three-fourths of all corporations have fewer than 20 employees.

It is of interest to note industry differences in the distribution of firms by type of organization which are apparently independent of size. On an over-all basis, industry differences in the distribution of firms by type of organization could be expected to follow from the industry differences in size composition. In manufacturing, for example, where firms tend to be larger than average, a higher than average proportion of corporations would be expected. However, in manufacturing the proportion of proprietorships is lower, and of corporations higher than average not only for the division as a whole but also within each of the size classes. In retail trade and the service industries this situation is reversed.

In part this phenomenon may be explained by industry variations in the average number of employees per firm within employee size classes. A more important reason for these industry differences in the distribution of firms by type of organization holding size constant probably lies in the use in business population statistics of employment as a measure of size. The amount of capital required is an important factor apart from employment in determining the legal form of organization of a projected business enterprise.

In industries such as manufacturing where the investment per employee tends to be higher than average, a higher than average proportion of corporations would be expected within employee size classes. If size of firm were measured in terms of total assets, on the other hand, it is likely that the industry differences by size classes in the distribution of firms among the types of organization would be lessened. However,

variation in the degree of risk associated with starting new businesses would give rise to some industry differences in the proportions of corporations within size classes.

Size as measured by total receipts

No breakdown by type of organization is directly available within employee size classes for firms with 20 or more employees. Since more detail for the larger firms could thereby be provided, distributions were also prepared with size measured by total receipts. These size distributions exclude the "other" category, and were estimated separately for proprietorships, partnerships and corporations in operation March 31, 1947, from unpublished Bureau of Internal Revenue data.¹ Although these estimates are subject to qualification, they are probably adequate for the purpose served in chart 3 which shows the percentage of firms within these types of organization by size of firm as measured by total receipts.

A rough indication of the relationship between the size distributions by total receipts and by number of employees is provided by the tabulation below which shows the total receipts which are approximately equivalent to different employment levels:

| Paid employees per firm | Approximate total receipts per firm, \$1,000 | | |
|----------------------------|--|-------------|-------------|
| | Individual | Partnership | Corporation |
| 4 | 35 | 55 | 25 |
| 8 | 75 | 120 | 90 |
| 20 | 190 | 280 | 265 |
| 50 | 650 | 745 | 705 |
| 100 | | 1,200 | |
| 500 | | 5,000 | |
| 1,000 | | 10,000 | |

The alignment of firms according to size as measured by employment cannot be expected to precisely agree with an alignment based on some other measure of size. However,

¹ For proprietorships and partnerships the number of firms in operation March 31, 1947 were distributed by total receipts according to BIR distributions of firms in operation at any time during the year. In the case of corporations, it first was necessary to estimate the distribution of firms by total receipts from the BIR distributions of firms by total assets.

the two distributions could be expected to follow each other in a general way, especially if employment were closely related to the second factor used to measure size. Although a firm which is "large" with respect to total receipts is not necessarily "large" with respect to employment, these two attributes are probably closely related, at least within industries and types of organization.

The industry differences were ignored in deriving the above equivalents; however, the relationship between total receipts and employment was assumed to be valid only within types of organization for small firms, since proprietors may contribute all or a substantial proportion of a small firm's total labor input. On the other hand, this relationship was extended to all types of organization combined among large firms since the labor contribution of any proprietor is necessarily proportionately small.

According to the above tabulation, firms with more than 500 employees are roughly equivalent to firms with total receipts exceeding \$5 million; more than nine-tenths of these firms are incorporated, 7 percent are partnerships and only 1 percent are individually owned. As before, the partnership percentage is the least affected by differences in size, and in general the patterns revealed by chart 3 agree with those obtained when size of firm was measured by employment. However, the increase in the proportion of corporations associated with increases in size of firm is more gradual than might be expected.

New Businesses by Legal Form

Business births by type of organization from 1945 through the third quarter of 1950 are shown in table 4. The series on new businesses pertains exclusively to firms which are newly established, since acquisitions of existing firms as well as shifts in type of organization are regarded as business transfers. Over this entire period, 2.5 million new businesses were established, of which about two-thirds were proprietorships and one-fourth were partnerships; corporations represented 8 percent and other types of organization one-half of one percent of the total.

Table 4.—Number of New Businesses by Type of Organization 1945-50

(Thousands)

| Year | All types | Type of organization | | | |
|------------------|-----------|----------------------|-------------|-----------|-------|
| | | Individual | Partnership | Corporate | Other |
| 1945 | 420.8 | 285.9 | 113.2 | 28.4 | 2.5 |
| 1946 | 510.8 | 399.9 | 131.2 | 48.6 | 2.5 |
| 1947 | 478.4 | 308.8 | 127.8 | 39.6 | 2.3 |
| 1948 | 404.6 | 266.4 | 99.2 | 36.6 | 2.4 |
| 1949 | 328.6 | 210.8 | 82.6 | 33.2 | 2.0 |
| 1950, Jan.-Sept. | 316.8 | 212.3 | 71.6 | 28.5 | 1.4 |

Note.—Detail will not necessarily add to totals because of rounding.

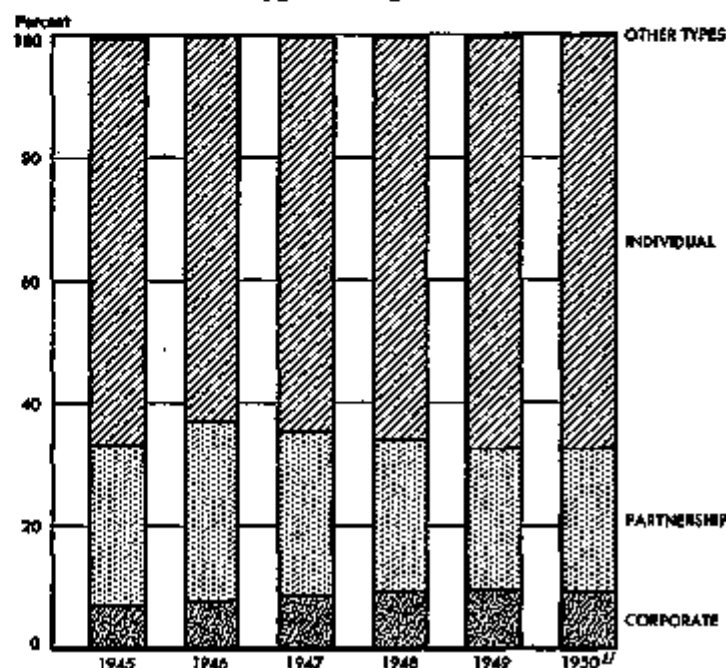
Source: U. S. Department of Commerce, Office of Business Economics.

New businesses were at the highest over-all level during 1946, the year for which proprietorships accounted for the lowest proportion of the total; after 1946 the proprietorship percentage gradually increased and in 1950 was slightly higher than in 1945. Firms organized as corporations are currently a few percentage points higher, and partnerships a few points lower, than in 1945, a change which appears to have occurred gradually.

Each of the types of organization has followed the movements of the total birth series since 1945. Within each type, the number of new businesses has declined each year since the 1946 peak, and the distribution of new firms by type of

organization has varied only moderately since 1945 as chart 4 reveals. However, new corporations have held up better than new businesses of other types, and new partnerships have fallen off more than average.

Chart 4.—Percentage Distribution of New Businesses, by Type of Organization



U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS

51-130

* Percentages are based upon new businesses for January through September 1950.

Source of data: U. S. Department of Commerce, Office of Business Economics.

Over the period for which information is available, the distribution of new businesses by type of organization has remained fairly stable in spite of factors which could be expected to bring about changes. This period encompasses the rapid growth during which the business population regained the losses suffered during World War II, as well as more recent years during which the number of firms in operation has varied only moderately.

Changes have also occurred in the tax structure during this period, particularly the termination of the wartime excess profits tax in 1946. Since the excess profits tax applied only to corporations, there was some shifting away from the corporate form of organization under its operation, as well as reshifting back to the corporate form upon termination of this tax. However, even corporate new businesses are characterized by a high proportion of small firms and the excess profits tax did not apply to the first \$25,000 of taxable income. As already noted, changes from one type of organization to another are considered transfers and have no effect upon the business births series, though they are reflected in the distribution of existing firms previously presented.

Comparison with external data

Relative movements in the series on new corporations presented in table 4 are in substantial agreement with those shown by the incorporations series compiled by Dun and Bradstreet and regularly published in the statistical appendix to the Survey. However, the level of the Dun and Bradstreet series is much higher; for the years 1946-49, there were 2.7 times as many incorporations as new corporations. The most important reason for the difference in level between

these two series is that incorporations brought about by shifts of existing unincorporated firms to the corporate form, or reorganization of existing corporations are considered transfers by OBE and excluded from the business births series. A less important reason for the difference in level is the exclusion from the business population universe of agricultural and professional enterprises.

An additional factor contributes to the difference in level between the incorporations and new corporations series, the effect of which may be substantial but which has not been precisely measured. Corporations are sometimes formed which would not be considered "firms" under business population definitions. These "paper" corporations show no employment, and have no recognizable place of business regularly devoted to the business activities involved. In some cases the promotion of projected corporations was not completed and the charter never exercised. In other cases, such corporations are individually owned and the entire income is in the form of rents from small apartment houses or other real estate. A corporation may also be set up to conduct a single transaction which is accomplished in a short period of time without benefit of paid employees.

In Bureau of Internal Revenue statistics such corporations would tend to be classified by industry in the finance, insurance and real estate division; 150,000 tax returns were submitted to the BIR by corporations classified in this industry division in 1947. The difference between this figure and the OBE estimate of 76,000 corporations in the finance division as of March 31, 1947 gives a rough indication of the importance of this factor.

New businesses by industry and size

Information on new businesses by type of organization, industry division and size is available only for the third quarter of 1950. These data are presented in table 5 with the size distribution shown for all industries and for selected industry divisions. A previous article on the business population showed that the percentage distribution of firms by size underwent little change between 1947 and 1948 particularly when firms with 20 or more employees are combined into a single size class; there is little reason to expect the current size distribution to differ markedly from that found for 1947. Since, as has been noted, there is also reason to believe the proportions of firms by type of organization are stable, it is probably permissible to compare 1950 new businesses with 1947 firms in operation. Chart 2, which facilitates the comparison, demonstrates striking similarities between new businesses and existing firms in regard to the patterns of firms by type of organization within size classes.

Rate of new firm formation

Type of organization information for both firms in operation and new businesses is available only for the year 1947. Shown below by type of organization are the number of new businesses during 1947 per 1,000 firms in operation March 31. It should be noted that the relationship among gross entry rates presented below is substantially changed when size and industry are held constant, as will be discussed later.

| Type of organization | Gross entry rate |
|----------------------|------------------|
| All types..... | 124 |
| Individual..... | 115 |
| Partnership..... | 185 |
| Corporations..... | 96 |
| Other..... | 34 |

The entry rate for partnerships far exceeds that found for firms of any other type. The entry rate of proprietorships is somewhat higher than that of corporations and substantially higher than that of other types of organizations. Though pre-

cisely comparable data are not available for other years there is evidence that these patterns in birth rates have characterized the postwar period.

Table 5.—Number of New Businesses by Type of Organization, Industry Division, and Size of Firm for Selected Industry Divisions, July–September, 1950

| Industry division and size class | All types | Type of organization | | | |
|--|-----------|----------------------|-------------|-------------|-------|
| | | Individual | Partnership | Corporation | Other |
| All industries..... | 35.2 | 64.3 | 21.6 | 8.7 | .5 |
| 0-3 employees..... | 61.5 | 58.5 | 18.4 | 4.2 | .4 |
| 4-7 employees..... | 9.1 | 4.8 | 2.2 | 2.4 | (1) |
| 8-19 employees..... | 3.5 | 1.1 | .9 | 1.5 | (1) |
| 20 or more employees..... | 1.3 | .2 | .3 | .7 | (1) |
| Mining and quarrying..... | 1.1 | .6 | .6 | .3 | (1) |
| Contract construction..... | 14.8 | 10.9 | 2.9 | 1.4 | .1 |
| Manufacturing..... | 18.4 | 5.8 | 2.8 | 1.6 | (1) |
| 0-3 employees..... | 7.3 | 4.6 | 2.1 | .7 | (1) |
| 4-7 employees..... | 1.8 | .9 | .4 | .6 | (1) |
| 8-19 employees..... | .9 | .3 | .2 | .4 | (1) |
| 20 or more employees..... | .4 | .1 | .1 | .2 | (1) |
| Transportation, communication, and other public utilities..... | 2.9 | 4.6 | .3 | .3 | (1) |
| Wholesale trade..... | 4.3 | 2.1 | 1.4 | 1.1 | (1) |
| Retail trade..... | 35.9 | 24.9 | 9.1 | 2.3 | .1 |
| 0-3 employees..... | 31.9 | 22.6 | 8.2 | 1.0 | .1 |
| 4-7 employees..... | 2.4 | 1.1 | .7 | .6 | (1) |
| 8-19 employees..... | .8 | .2 | .2 | .4 | (1) |
| 20 or more employees..... | .2 | (1) | (1) | .1 | (1) |
| Finance, insurance and real estate..... | 5.3 | 3.2 | 1.9 | 1.1 | .2 |
| Service industries..... | 17.8 | 13.0 | 3.6 | 1.1 | .1 |
| 0-3 employees..... | 15.9 | 12.2 | 3.2 | .8 | .1 |
| 4-7 employees..... | 1.2 | .6 | .3 | .3 | (1) |
| 8-19 employees..... | .6 | .2 | .1 | .3 | (1) |
| 20 or more employees..... | .2 | (1) | .1 | .1 | (1) |

¹ Less than .50.

Note.—Detail will not necessarily add to totals because of rounding.

Source: U. S. Department of Commerce, Office of Business Economics.

As previous articles on the business population have pointed out, highly variable entry rates have also been found between industries, between size classes and even between geographical regions. The industrial and size compositions of firms of different types of organization have been shown to differ and, hence, the gross birth rates shown above may illustrate little more than various weightings of the same basic entry rates rather than any inherent differences between firms of different types of organization independent of these and possibly other factors.

Entry rates holding size and industry constant

Examination of entry rates by the three-way classification of size, industry and type of organization could be expected to indicate the separate effects of differences in each of these factors upon entry rates. Unfortunately, present data are not completely adequate for this approach to the problem. No information on new businesses by type of organization, industry and size is available until the third quarter of 1950; the only comparable data for operating businesses pertain to March 31, 1947—a difference in time of more than 3 years. Furthermore, in the case of firms in operation, some of the more sparsely populated cells of the three-way classification are subject to large sampling errors; within each size-by-industry classification the distribution of firms by type of organization depends upon a sample of employers too small to yield precise estimates within each cell.

Nevertheless, a study based upon present data does reveal significant variation in entry rates by industry and by size. The effect of type of organization upon entry rates was less

(Continued on p. 24)

Agricultural Production and Income

(Continued from p. 8)

of the price of the product to the price of feed, the more favorable it is to increase feeding to expand meat, egg, or milk production.

Since such a comparison does not take into consideration other costs of production, it is most meaningful where feed represents a high proportion of total costs. By this standard of comparison the hog-corn ratio is the most reliable of the group, and over a long period of years changes in the size of the pig crop have been closely related to changes in the hog-corn ratio at the time at which sows are bred for farrowing. In recent months, the hog-corn ratio has been about equal to the long-time average, which in view of the gradual increase in feeding efficiency, is favorable for continued high production. Moreover, it has been somewhat more favorable than the egg-corn ratio and the butterfat-corn ratio.

The beef steer-corn ratio has been considerably higher, however, than the long-time average, and the favorable beef steer prices have accentuated the upswing in beef cattle herds which has been under way since 1948. For the rather specialized beef steer feeding operations, a calculation including other costs, such as the price of feeder steers, provides a fuller cost-price picture. For example, Department of Agriculture estimates of the margin of value of feed steers over costs for yearlings purchased in the fall and sold the following spring show that fat steers sold in the spring of 1950 yielded a margin of \$68.50 per head, the largest for any similar period for which data are available. These wide margins resulted from the very substantial rise in the price of slaughter cattle during the feeding period. For steers purchased as feeders in the latter part of 1950 and marketed in March-April of 1951, the margin is about the

same as last year, and three times as great as the average for the preceding 10 years.

Margins narrowed

Ceiling prices which slaughterers may pay for beef cattle were announced on April 28 by the Office of Price Stabilization. These call for a reduction of about 10 percent from the price at the end of April during June and July and a projected further 4½ percent reduction in August and a third reduction of 4½ percent in October. On the basis of these ceilings, farmers selling steers purchased last fall at the June-July ceilings would have a margin over cost of \$47.70 per head, which is substantially lower than recent margins but higher than in any year prior to 1950. At the projected August-September prices the margin is \$32 per head figured on the same basis.

Meanwhile, the continuing high demand for finished beef steers and the broad margin over cost for feeding such steers, brought a substantial rise in the price of feeder steers from the latter part of 1950 to the early months of 1951. As a result, there is little or no margin on feeder steers purchased in the first 4 months of 1951 and sold at the newly established ceiling prices. The number of feeder cattle purchased in the first 4 months of 1951—while larger than a year ago—is only a third as large as the heavy seasonal movement in the October-December months of 1950. A downward adjustment in feeder steer prices occurred following the ceiling price announcement for slaughter cattle. Such a development points toward the establishment of more normal margins for the finishing of cattle for slaughter.

The Business Population by Legal Form of Organization

(Continued from p. 14)

clear when the analysis was based on all observations; however, within the two industry divisions with the largest number of firms—retail trade and the service industries—the entry rate for corporations exceeded the partnership rate, and both these types of organization tended to have much higher entry rates than proprietorships.

The lower entry rate for proprietorships as compared to corporations of the same size within these industries may be attributable in part to the comparative availability of investment funds, since it is possible under the corporate form to draw on the capital of a number of different individuals who may or may not desire to participate directly in the operation of the enterprise. The capital available to a proprietorship, on the other hand, is limited by the funds the owner has saved or can borrow. Also of great importance is the fact that in corporations the investor's liability is limited to the amount of his investment. These considerations apparently more than offset the advantages which individually owned businesses offer in the way of lower taxes, fewer regulations, and direct and full control of the business by the owner. It may be noted, however, that to some extent the high corporate entry rate may also reflect the characteristics of the postwar period covered.

It might be expected that the partnership entry rate would fall somewhere between the rates of proprietorships and corporations. Like proprietorships, partnerships may be formed with relative ease and the liability, though lessened, extends to each owner's personal assets. On the other hand, partnerships resemble the corporate form since they do permit the

pooling of more than one individual's resources and risk is spread to some extent. In addition, however, the partnership form usually makes available to the firm the working time and skills of each of the partners. That many of these firms do not embrace the corporate form is probably attributable to the fact that a partnership may be initiated with greater ease and less expense, and perhaps most important, with a subsequent tax advantage.

Differentials in entry rates, even if they persist over long periods of time, do not necessarily imply a shifting in the composition of existing firms by type of organization. In the case of corporations there is evidence that the proportion of such organizations in the total has undergone a long-term gradual increase since the initial period of rapid growth. However, it is not known whether there has been any corresponding change in the proportion of partnerships among the firms in operation.

TECHNICAL NOTES

The statistics presented in this article are estimated within the framework of the regular Office of Business Economics series on the business population, and in general the sources and methods employed are adaptations of those described in the technical notes of the article, "Revised Estimates of the Business Population," *SURVEY*, June 1949. The figures on operating businesses by legal form of organization are based on samples of employers submitting tax returns to the Bureau of Old-Age and Survivors Insurance for the first quarters of 1947 and 1948 and on Bureau of Internal Revenue data. The distributions of unincorporated firms by type of organization and by major industry division depend upon the BOASI samples; the breakdown of corporations by industry, as well as additional industry detail for unincorporated businesses, are based upon BIR data adjusted for business turnover. The BOASI samples were also used to derive the size distributions of operating businesses within each major industry division and type of organization. Estimates of the number of new businesses by type of organization, 1945-50, and the breakdowns by size and major industry division for the third quarter of 1950 are derived from tabulations of the applications for employer identification numbers regularly furnished to this office by the BOASI.